



# **Management and Performance Challenges and Progress**

## MANAGEMENT RESPONSE TO OIG

In accordance with the Reports Consolidation Act of 2000, HUD's Annual Performance and Accountability Report "...shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges." The HUD Inspector General's FY 2000 Management and Performance Challenges statement is presented in the remaining pages of this section. HUD management generally agrees with the below listed 10 management challenge areas identified by the Inspector General. However, given that the Inspector General's perspectives are often based on previous audit work, that perspective may not fully reflect the current nature of the challenge and the status of efforts to meet the challenge. The following chart provides HUD management's current assessment of these challenge areas.

### Management Response to OIG Reported Management Challenges

#### **1. HUD 2020 Management Reforms**

The June 1997 management reform plans were intended to realign the Department along functional lines, and to place greater reliance on automated tools and contracted services, to enable the Department to better utilize a reduced staffing capacity to more efficiently and effectively deliver and oversee major HUD program activities. The organizational and operational changes called for in the plans have evolved over the past 3½ years, with some incremental progress and improvements realized. However, further efforts are needed to institutionalize those changes and assure consistency in operations. Still needed are: clarity in organizational roles and responsibilities, adequate written policies and procedures on new processes for internal and external stakeholders, additional contract performance incentives and oversight provisions, and the structure and cultural change to appropriately sanction performance and compliance problems detected by new risk-based monitoring techniques.

#### **2. Financial Management Systems**

HUD's Financial Systems Integration (FSI) Project did not fully meet its original objectives, as the scope of the original project was overly broad with insufficient planning to assure success. The FSI Project was re-scoped to limit its objectives in the Spring of 2000, and was completed in November 2000, to establish the HUD Central Accounting Program System (HUDCAPS) as the Department's core standard general ledger (SGL) system, in substantial compliance with Joint Financial Management Improvement Program requirements. As completed, HUDCAPS is inefficiently integrated with HUD's accounting and business processes, and HUD is left with a strong dependency on the developing vendor for operating system changes and support. To overcome these core inefficiencies, and to meet the substantial remaining needs for an enhanced FHA subsidiary ledger system and improved program systems and interfaces in major program areas, the CFO has developed a new financial management systems vision, which is currently under review.

### **3. Real Estate Assessment Center**

The REAC has made progress in developing and implementing assessment sub-systems that enable HUD program and Enforcement Center staff to deploy risk-based targeting of performance and compliance deficiencies related to the physical, financial and management conditions of HUD-supported housing projects, as well as the propriety of single family housing appraisals and the certification of income by subsidized tenants. Based on initial operating experience or advisory scoring efforts, HUD's program partners and stakeholders, as well as GAO and OIG auditors, have recommended some revisions to HUD's new assessment processes. HUD is retooling some aspects of REAC's assessment systems and related processes to better assure the quality and consistency of assessments that are independent and credible. It should be noted that the prior audit recommendations cited in the OIG's Management Challenges section on REAC were all resolved and closed as of January 2000.

### **4. Departmental Enforcement Center**

The Enforcement Center's resources have been fully engaged in targeting the most egregious cases of identified compliance deficiencies in program areas with the greatest risk to HUD. Those programs include the multi-family and single family mortgage insurance and project-based rental subsidy programs. HUD's remaining public housing, tenant-based rental assistance and community grant programs are viewed as lower risk in that they are largely directly administered by State and local governmental entities that are accountable to the public in their own right. HUD is also striving to improve the performance and accountability of program partners in these other programs as well, through efforts such as the Public Housing Assessment System (PHAS), the Section 8 Management Assessment Program (SEMAP), and performance measurement and reporting under the Government Performance and Results Act. As opposed to more detailed compliance requirements and effort intensive after-the-fact checking and enforcement efforts, HUD is pursuing improved performance measurement and reporting for the purpose of holding program partners accountable by tying past performance to future program funding decisions.

### **5. Troubled Agency Recovery Centers**

Delays in the implementation of the PHAS rule have delayed the full deployment of TARC resources in carrying-out the important mission of assisting troubled PHAs in improving their performance. In response to criticism of select aspects of the existing PHAS scoring process from HUD's PHA partners, HUD is currently considering further revisions to the PHAS scoring process. Nevertheless, the first cycle of complete PHAS advisory scores is the best information available to HUD on the conditions at the over 3,100 PHAs funded by HUD. Those scores identify 588 PHAs as troubled. TARC resources should and will be used to work with those PHAs, pending full implementation of the PHAS. To the extent PHAs are not willing to voluntarily work with the TARC, pending full implementation of the PHAS rule, the Office of Public and Indian Housing will consider the severity of conditions at the PHA and the need to pursue other available avenues of dealing with recalcitrant PHA management that are in substantial violation of their Annual Contributions Contract with HUD.

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### **6. Use of Staff Resources**

HUD is proceeding to implement previously delayed plans for a Resource Estimation and Allocation Process (REAP). The REAP studies will establish a baseline for estimating resource requirements and making staffing allocations. Staff reductions experienced by HUD in the 1990s were to be accompanied by a corresponding reduction and streamlining of HUD's inventory of over 240 overlapping programs to enable HUD to better focus on its core mission. However, HUD's program inventory was increased during this period. Despite improved use of remote and risk-based monitoring techniques, HUD staff struggle with both the fixed workload of delivering resources under its myriad programs, and the variable workload of identifying and addressing performance problems and compliance deficiencies that increase risks and diminish program outcomes. The new administration will evaluate HUD's programs to determine duplication and applicability to HUD's core mission. The Community Builder position resources will be reallocated to make them available for core mission program delivery and oversight activities. HUD's August 2000 "Succession Planning" document, combined with the REAP studies input, will provide a basis for a Workforce Plan that will enable HUD to more effectively recruit, develop and manage its human capital to meet the future demands of its core mission.

### **7. FHA Single Family Loan Origination Practices**

As indicated by the OIG, HUD has undergone considerable change in this area to better utilize available resources in reducing the risks of the single family housing mortgage insurance program. Further recommended improvements by both the OIG and the GAO were accepted. Also, HUD is proposing an amendment of Section 533 of the National Housing Act to confirm HUD's authority to terminate a lender's approval to originate mortgages when they experience an unacceptably high level of early defaults. While HUD has an improved control structure in place, the challenge remains to assure operational consistency in the application of those controls, along with the management discipline and will to apply appropriate sanctions to prospective new and existing lenders, loan correspondents and appraisers that fail to follow HUD requirements to minimize financial risk to the FHA fund.

### **8. Single Family Section 203 (k) Program**

As part of Secretary Martinez's commitment to study the need to streamline HUD's program structure, the "investor" portion of the Single Family Section 203 (k) Program will be considered for elimination as a high risk specialty program that is not critical to the achievement of HUD's core mission objectives.

### **9. Single Family Property Disposition Program**

Although HUD has successfully used performance-based management and marketing (M&M) contracts to substantially reduce its property inventory levels, both the OIG and the GAO have recommended the need for further incentives, controls and performance measures over M&M contractor activities. Those recommendations are under consideration.

### **10. Section 8 Program Administration**

HUD recognizes this as a material management control weakness area, and is developing a comprehensive corrective action plan, as previously discussed in the "Financial Management Accountability" section of this report.

# MANAGEMENT AND PERFORMANCE



U.S. Department of Housing and Urban Development

## Office of Inspector General

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FEB 27 2001

MEMORANDUM FOR: Mel Martinez, Secretary, S

FROM: Susan Gaffney, Inspector General, G

SUBJECT: Management and Performance Challenges

In accordance with Section 3, of the Reports Consolidation Act of 2000, the Office of Inspector General is submitting a statement summarizing our assessment of the most serious management and performance challenges facing the Department of Housing and Urban Development. These issues are discussed in greater detail in our Semiannual Reports to the Congress. Unfortunately, many of these challenges persist from year to year because solutions are complex, costly and time consuming. While HUD's 2020 Management Reforms were intended to address and possibly correct many of these problems, 3 1/2 years later many of the management reforms remain a work in progress. Consequently, we are still uncertain as to whether the business operational changes taking place will ultimately improve the efficiency and effectiveness of HUD programs. Additionally, as HUD's new Secretary, you might choose different approaches in dealing with some of these operational issues.

Since HUD began its reform effort, the OIG has been very vocal in the need for HUD to reduce the number of its programs and focus on its core mission. New programs or initiatives have been added in the past with little or no consideration of the staffing implications. In more specific terms, our report on Community Builders (CB) last year recommended the elimination of that function. CBs comprised nearly 10 percent of the HUD workforce. In response to our report and the concerns of the Congress, HUD eliminated CB term appointments. However, most of the term positions were then moved to permanent positions. We understand that you are taking a new look at CB operations.

In summary, the cause for many of our audit and investigative findings is a lack of internal controls. This weakness is most often a result of too few staff to do an adequate job. It is important that HUD eliminate high risk, staff intensive programs and assign sufficient resources to focus oversight on HUD's core mission areas.

Should your staff have any questions on our report, please contact me on 202-708-0430.

Attachment

## HUD 2020 Management Reforms

While HUD 2020 Management Reforms have been underway for more than 3½ years, many aspects of the plan are far from completion. These Reforms impact nearly every aspect of HUD operations. Some of the critical aspects of the reforms, such as staffing requirements and financial management systems, are still under development. The continual state of change brought about by 2020 has deeply impacted HUD's ongoing operations. A review of the HUD Reform Plan by the Public Strategies Group in November 2000 noted that the transition is happening slowly and there is pervasive tension between centralized control and local empowerment. Moreover, since HUD has never performed an adequate cost benefit analysis, there is no assurance that changes being implemented will fundamentally improve the financial and program operations of the Department. Many of the other management problems discussed in this document are largely impacted by the 2020 Reform effort.

### Supporting Reports

- OIG Semiannual Reports to Congress (September 1997 through September 2000)
- Interim review of HUD 2020 Management Reform Plan (OIG:98-HQ-179-0801, November 1997)
- HUD's Financial Statements Audit (Fiscal Years 2000, 1999, 1998, 1997)

### Recommendations to Address Problems

Our Financial Statement Audits as well as our Semiannual Reports to Congress discuss in greater detail our efforts to address problems brought about by HUD 2020 Management Reform changes. Details of some of the more significant issues are described in the individual problem areas that follow.

## Financial Management Systems

When HUD announced its 2020 Reform plan in June of 1997, one of the major initiatives was the improvement and integration of financial management systems. HUD decided to fully implement the Federal Financial System (FFS) to serve as its Department wide consolidated general ledger system. During Fiscal Year 1998, the Department initiated tasks to replace the FHA's general ledger system with FFS and consolidate the legacy General Ledger into FFS for Department wide financial reporting. HUD's goal was to have these systems in place in early Fiscal Year 1999.

In early 1998, we outlined several risks with the plan including an incomplete evaluation of viable solutions, high costs, and data conversion problems. Ultimately, the Department encountered significant delays and cost overruns in implementing FFS. These problems resulted in the inability for the OIG to render an opinion on the Department's Fiscal Year 1999 Financial Statements. During fiscal year 2000, the Department continued to experience



## MANAGEMENT AND PERFORMANCE CHALLENGES

difficulties in implementing an integrated financial management system. A recent decision was made to acquire a new software system for FHA with possible expansion to the Department. We reported to the Deputy Secretary our concern with the decision to restart the process with a \$1.45 million purchase of software licenses. We believe the Department has not performed adequate study and analysis before making this procurement decision.

### Supporting Reports

- Department's September 2000 Purchase of COTS Financial Management System (Audit Related Memorandum 00-DP-166-0804, September 29, 2000)
- HUD Financial Statements Audit (Fiscal Years 2000, 1999, 1998, 1997) Recommendations to Address Problem

### Recommendations to Address Problem

We recommend that the Department delay any development efforts for the purchased software package until adequate systems development studies and analyses, such as the feasibility study, cost/benefit analyses, and risk analyses, are conducted and the Enterprise Architect Plan is issued and considered.

### HUD's Progress in Implementing Recommendations

FHA's November 9 response to the September 2000 Audit Memorandum did not adequately address our concerns. The studies and analyses documentation provided were the same as those previously provided to us. We responded to FHA and described in detail the deficiencies with the existing studies/analyses. FHA has just recently provided additional updated documentation which we are in the process of evaluating.

### Real Estate Assessment Center

HUD is placing heavy reliance on its new Real Estate Assessment Center (REAC), the cornerstone of the HUD 2020 Management Reform Plan. Prior to 2020, there were fragmented systems for overseeing HUD assisted properties. REAC consolidated physical and financial assessments into one organization. The Center is financed through funding allocated from program offices. Inspections for the more than 45,000 Multifamily and Public Housing properties are costing millions of dollars annually. Information systems to support this operation are costly. Industry participants in HUD's programs have raised serious questions as to the reliability of the assessments.

While this assessment process provides the diagnostic tools for identifying troubled performers, we are concerned that the results are not being used effectively to improve housing conditions for the poor.

### Supporting Report

- Implementation of the Real Estate Assessment Center's Physical Inspection Assessments. (OIG: 99-BO-199-0802, September 1999)

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## Recommendations to Address Problem

Our report made several recommendations to include:

- Assuring there is a mechanism to track the resolution of issues developed from physical inspections;
- Completing and executing the agreement between the Office of Housing and the Real Estate Assessment Center that delineates the general operating relationships between these two offices; and
- Performing a cost-benefit analysis of REAC's physical inspection assessment showing how HUD evaluated the cost of the inspection assessment system in light of the resources available to HUD as well as the benefits derived from the standardization of inspections.

## HUD's Progress in Implementing Recommendations

HUD is making progress and has promised action on most of our recommendations. We have started a review to evaluate how HUD field monitoring staffs are using REAC scores and whether this scoring process is having its intended effect on improving housing conditions.

## Departmental Enforcement Center

The HUD 2020 vision for the Enforcement Center was to combine non-civil rights compliance enforcement actions for the Offices of Public and Indian Housing, Community Planning and Development, Fair Housing and Equal Opportunity, and Housing into one organization. However, the Center has not been working to the capacity envisioned. Nearly all focus has been on enforcement of multifamily programs administered by the Office of Housing. The Center has received few if any referrals from other program operations in HUD. In addition, HUD had not given the Enforcement Center critical delegation authority crucial to tougher enforcement actions. Without this authority, the Center may never realize the independence or autonomy set out in the HUD 2020 reform plan. The OIG believes that the Department needs to be more aggressive in taking administrative actions and that the Enforcement Center needs to be fully operational.

## Supporting Reports

- Nationwide Audit—Enforcement Center (00-NY-177-0001, March 2000)

## Recommendations to Address Problem

Our report made several recommendations; some of them include that HUD:

- Ensure that the Enforcement Center is delegated the proper authority to perform its mission and is given the proper amount of resources so that it can achieve its primary objective of restoring the public trust in HUD programs.
- Ensure that the Enforcement Center imposes civil money penalties for all the violations allowed per legislation.
- Expedite the publishing of the proposed regulation implementing the amendments mentioned in the Department of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1998.



## HUD's Progress in Implementing Recommendations

The Department generally agreed with our audit and corrective action is underway.

## Troubled Agency Recovery Centers

Troubled Agency Recovery Centers (TARCs) were established under the 2020 Reform Plan to assist failing Public Housing Authorities (PHAs) in improving their performance. In October 1998, HUD reported the TARCs to be fully operational. Our review in 1999 found that the TARCs were working at less than 10 percent of their planned capacity. There are several reasons for the TARCs' minimal workload. First, staff level determinations were based on a working Public Housing Assessment System (PHAS). It was estimated that 575 troubled PHAs would be identified through the REAC's new PHAS scoring process. However, the details of the PHAS final rule and the implementation of a formalized PHA inspection process have been delayed. Troubled PHAs are still being identified through the former self-assessment methods known as the Public Housing Management Assessment Program (PHMAP). The on-going transition from PHMAP to PHAS since 1998 continues to undermine the original concept of the TARCs. In Fiscal Year 2000, HUD field staff had no clear direction from Field Operations (HQ) as to what data or procedure they were to use in determining if a PHA should be designated as "troubled" and forwarded to the TARC for servicing. As a result, the TARCs' portfolio of troubled PHA was at 45 while the TARCs assumed servicing for 23 non-troubled PHAs. Thus, TARCs have further strayed from their primary mission directive under HUD 2020.

We continue to have concern over the Department's current and future use for the two TARCs in improving PHA performance. The delays in implementing PHAS continues to limit the number of PHAs designated as troubled and referred to the TARCs. In fiscal year 2000 only one troubled and 19 non-troubled PHAs were added to the TARCs' inventory. Further, there remains uncertainty as to whether the PHAS rule, when fully implemented, will identify a significant number of "high risk" PHAs.

## Supporting Reports

- Survey of the Troubled Agency Recovery Centers and Related Field Office Activities (99-FO-101-0802, September 1999)
- HUD Financial Statements Audit (Fiscal Years 2000, 1999, and 1998)

## Recommendations to Address the Problem

It was recommended that HUD revise the PHAS guidance procedures to ensure all PHAs that are designated as troubled under the PHAS regulations are transferred to and serviced by the TARCs.

## HUD's Progress in Implementing Recommendations

HUD disagreed with changing guidance at this time because they were still developing the final PHAS rule and corresponding processes and procedures. We agreed to close the recommendation but to continue to monitor the issue during our Financial Statement Audits.

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## Use of Staff Resources

The 2020 Management Reform Plan called for HUD to implement a resource estimation and allocation process. HUD's Fiscal Year 1999 Annual Performance Plan noted that the Department no longer had a system for measuring work and reporting time, and that HUD lacked a single integrated system to support resource allocation. Today, HUD still lacks this capability. The absence of this capability concerned Congress, which requested that the National Academy of Public Administration (NAPA) examine HUD's practices for estimating human resource needs. HUD reported that it intended to work with NAPA to develop a methodology or approach for resource management that would allow the Department to identify and justify its resource requirements for effective and efficient program administration and management.

In a recent audit, we examined the Department's progress in developing and implementing a Resource Estimation and Allocation Process (REAP) using the NAPA developed methodology. We found that although HUD conveyed to Congress that it needed a resource management system and that it planned to implement such a system within 18 months, progress was well behind schedule. Current estimates for the Department's completion of the REAP studies is December 2001. However, even if the REAP studies are completed in a fair and unbiased manner, they will not address how the information will be used in determining staff allocations or adjustments. The present studies address what the needs of each program division are based on existing servicing and monitoring functions. We are uncertain whether the results will be used to better utilize staff resources. Additionally, budget limitations may further limit the Department's ability to properly re-distribute its resources if such redistribution is needed.

## Supporting Reports

- Limited Review of HUD's Management and Control of Staff Resources (OIG:93-HQ-169-0005, March 1993)
- Audit Reports on HUD's Annual Financial Statements (various 1991-2000)
- Nationwide Audit of the Community Builders (OIG:99-FW-177-0002, Sept. 1999)
- Aligning Resources and Priorities at HUD: Designing a Resource Management System (National Academy of Public Administration, October 1999)
- Progress Assessment—Implementing the Resource Estimation and Allocation Process (REAP)(OIG 00-PH-169-0802, September 2000)

## Recommendations to Address Problem

Numerous recommendations have been made by the OIG and NAPA. Some of the recommendations include that HUD:

- Develop and implement a strategic plan to actively resolve staffing problems that include the need to develop an effective staff allocation system.
- Assign a single HUD organization the responsibility for allocating the Department's staff resources.

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- Develop and implement substantive criteria for contracting out work that includes factors other than staff limitations.
- Complete the design and implementation of a resource validation system that accurately measures what staff do.
- Eliminate the Community Builder positions.

## HUD's Progress in Implementing Recommendations

HUD continues to experience problems in implementing OIG and NAPA recommendations. HUD's slow progress has been compounded by the need to develop adequate performance measures in compliance with the Government Performance and Results Act and the dramatic changes in HUD's work processes due to the HUD 2020 Management reforms.

## FHA Single Family Loan Origination Practices

Procedures and practices pertaining to HUD's single-family loan origination program have undergone considerable change, particularly in the last 5 years. The changes have been both programmatic and organizational, including significant changes in loan underwriting requirements and the transfer of virtually all aspects of single family production and program monitoring from HUD staff to lenders and contractors under the oversight of HUD's Homeownership Centers.

A comprehensive audit of FHA loan origination practices found significant problems with FHA's reviews of lender underwriting and property appraisals. Also, the monitoring of lenders by the Quality Assurance Division was deficient. We noted problems with the oversight of pre-endorsement contractors, and the accuracy of information in the automated tracking system. These weaknesses increase HUD's risk of losses and can result in inflated appraisals, fraudulent underwriting, property flipping and other lending abuses. HUD's procedures for monitoring both lenders and contractors were less than effective, resulting in an increased risk of fraud, waste and abuse.

These problems, along with the significant growth in program activity, have made the FHA program particularly vulnerable to fraud and abuse. Our Investigative and Housing Fraud Initiative activities have identified numerous frauds in FHA programs.

## Supporting Reports

- Single Family Production Home Ownership Centers Atlanta, GA, Denver, CO, and Santa Ana, CA (00-SF-121-0001, March 2000)

## Recommendations to Address Problems

Numerous recommendations that have been made to strengthen the programs. These include better risk based monitoring processes for post endorsement reviews of lenders and improved selection criteria in identifying lenders for Quality Control Reviews.

## HUD's Progress in Implementing Recommendations

Most promised actions are scheduled for implementation in late Fiscal Year 2001.

## Single Family Section 203(k) Program

The Section 203 (k) program allows HUD to insure loans for the purchase and rehabilitation of single family properties. Our nationwide audit found investors and non-profit borrowers abusing the program. HUD was experiencing a very high rate of default for this type of mortgage. The program as designed encouraged risky property deals, land sale and refinancing schemes, overstated property appraisals, and phony or inflated fees. In contrast, an audit of the Section 203(k) program as it pertains to owner/occupant borrowers found that the program was generally successful. In most cases, borrowers effectively used most of the loan funds to acquire and substantially improve a property for their residence.

A June 1999 GAO report confirmed the results of our 1997 audit. For loans endorsed from Fiscal Years 1994 through 1996, the claim rate for loans under the Section 203(k) program was almost double that of loans under the Section 203(b) program. Further, GAO found that despite the recognized risks and the potential for mounting losses to the General Insurance Fund, the Department has done little to address the problems identified by the OIG in 1997 and 1998.

## Supporting Reports

- Section 203(k) Rehabilitation Mortgage Insurance Program (97-AT-121-0001, February 1997)
- Section 203(k) Rehabilitation Mortgage Insurance Program (98-AT-121-0002, May 1998)
- Problems Persist With HUD's 203(k) Home Rehabilitation Loan Program (GAO/RCED-99-124)

## Recommendations to Address Problem

We recommended that HUD: (1) no longer allow investors to participate in the program, and (2) make improvements in program procedures for loans to non-profit borrowers. We also recommended that Housing issue the proposed changes to mortgagee letters that would require each lender to field review the final inspection report for a sample of the loans to ensure the quality of the inspectors' work.

## HUD's Progress in Implementing Recommendations

Instead of permanently removing investors from the Program, HUD placed a temporary moratorium on investor participation. In June 1997, we referred the matter to the Deputy Secretary. In February 1998, the former Deputy Secretary decided to maintain the suspension on investor participation, but postponed the decision to permanently ban investors until HUD decided whether to implement a new rehabilitation program.

A mortgagee letter was issued to improve controls over loans to non-profits. The Department still has not issued a mortgagee letter to improve lender's quality controls over field inspections. We have continued to address this issue in the Follow-up Chapter of every Semiannual Report to the Congress since 1998.

## Single Family Property Disposition Program

FHA contracted for the management and marketing of its single-family properties in March of 1999. Seven companies received awards for the 16 M&M contracts to manage its single-family property inventory. The objective of the contracts was to reduce the inventory in a manner that: “(1) expands home ownership, (2) strengthens neighborhoods and communities, and (3) ensures a maximum return to the mortgage insurance fund.” FHA has realized some success from outsourcing. Sales volume increased and property inventories decreased. Also, contractors implemented new marketing tools such as bidding through the Internet. Sales of properties in fiscal year 2000 exceeded \$5 Billion.

Our comprehensive audit of the program found that FHA’s contractors did not maximize the return to the mortgage insurance fund or maintain properties in a manner that strengthened neighborhoods and communities. FHA has had numerous other problems with the contractors including bankruptcy by one, inability to meet contract performance deadlines, countless complaints from homebuyers and real estate professionals, and billings for ineligible costs.

We found problems with all seven contracts reviewed. Outsourcing of program operations resulted in reduced returns to the mortgage insurance fund of about \$188 million. We attribute the losses to poor M&M contractor sales performance and substantially increased program costs. We believe FHA’s failure to perform a cost benefit analysis in accordance with A-76 contributed to the poor program performance and loss of funds.

## Supporting Reports

- Single-Family Property Disposition Program (OIG 00-AT-123-0001, September 2000)
- Internal Audit Follow-up Review of HUD Contracting (OIG: 99-PH-163-0002, September 1999)
- Single-Family Housing: Improvements Needed in HUD’s Oversight of Property Management Contractors (GAO/RECD-98-65, March 1998)

## Recommendations to Address Problem

Several recommendations were made to include:

- Establishing performance benchmarks and critical success factors that show when the costs of outsourcing exceed the benefits obtained. This includes, for example, measuring sales prices and costs as percents of market value.
- Monitoring performance and considering alternative program delivery methods when the costs are not justified by the benefits.
- Revising GPRA goals and reports to include all key performance indicators to provide an accurate assessment of program performance.

## HUD’s Progress in Implementing Recommendations

We are still working with the Department in resolving our report recommendations.

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## Section 8 Program Administration

HUD is not adequately administering the Section 8 Rental Assistance program. HUD continues to: 1) experience problems in accounting and budgeting for Section 8 funds; 2) pay excessive Section 8 subsidies; 3) provide inadequate monitoring of Section 8 contract administrators; 4) inadequately oversee its own Section 8 portfolio; 5) have difficulty in timely identifying unneeded excess funds remaining on expired project-based Section 8 contracts.

## Supporting Reports

- Survey of HUD's Efforts to Properly Account and Budget for Section 8 Funds (OIG: 90-TS-103-0010, April 1990)
- Review of HUD's Fiscal Year 1992 and 1993 Budget Estimating Process for Section 8 Contract Renewals and Amendments (OIG: 92-TS-103-0008, April 1992)
- Audit of Section 8 Budget and Accounting (OIG: 95-FO-103-0001, March 1995)
- Audit reports on HUD's Annual Financial Statements (various 1991-2000)
- Section 8 Tenant-Based Housing Assistance: Opportunities to Improve HUD's Financial Management (GAO/RCED-98-47, February 1998)
- Section 8 Housing Assistance: HUD to recapture \$439 Million of Excess Funding in the Moderate Rehabilitation Program (GAO/RCED-98-235, August 1998)
- Section 8 Project-Based Rental Assistance: HUD's Processes for Evaluating and Using Unexpended Balances are Ineffective (GAO/RCED-98-202, July 1998)
- Multifamily Housing: HUD Missed Opportunities to reduce Costs on Its Uninsured Section 8 Portfolio (GAO/RCED-99-217, July 1999)
- HUD's Fiscal Year 2000 Budget Request: Additional Analysis and Justification Needed for Some Programs (GAO/RCED-99-251, September 1999)
- Advisory Report on Section 8 Contract Administration (OIG: 99-BO-119-0801, October 1998)

## Recommendations to Address Problem

Numerous recommendations have been made by the OIG and GAO, some include that HUD:

- Develop a formal plan to ensure that tenant income verifications are performed, either by HUD or its intermediaries.
- Establish a quality assurance program to periodically obtain empirical evidence about the type and extent of under-reported and reported tenant income and determine its effect on how well HUD delivers rent subsidies to eligible tenants.



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- Verify that project-based Section 8 payments are accurate and allowable by testing source documentation through verification of tenant data.
- Analyze the impact on control risk from outsourcing the oversight of HUD's Section 8 portfolio to contract administrators and finalize plans to improve administration of contracts remaining under HUD responsibility.
- Develop a comprehensive strategic plan and corresponding monitoring goals that will, among other things, include a strategic goal for monitoring and tracking contract administrator performance.
- Improve systems and procedures to facilitate timely close-out and recapture of excess budget authority on expired project-based Section 8 contracts.

### **HUD's Progress in Implementing Recommendations**

HUD continues to experience serious problems in implementing OIG and GAO recommendations. Our audit reports on HUD's annual financial statements provide a historical summary of unresolved recommendations relative to Section 8 program administration.